



MICHIGAN HOUSING COUNCIL

124 West Allegan Street • Suite 1900 • Lansing, MI 48933
Phone 517-487-9360 • Fax 517-484-4442

Michigan Housing Council Statement

Before the

**Michigan State Housing Development Authority
Regarding the
Draft Michigan Qualified Allocation Plan 2008-2009**

September 13, 2007

Good Morning. My name is Tom Higgins. As vice president of the Michigan Housing Council (MHC), I want to thank the Michigan State Housing Development Authority (MSHDA) for the opportunity to offer public testimony regarding the draft Michigan Qualified Allocation Plan for 2008-2009 (QAP).

The Michigan Housing Council is one of the oldest statewide associations of affordable housing professionals in the United States. We represent for profit and non-profit owners, developers, managers, general contractors and subcontractors, architects, engineers, attorneys, investors, financial groups, insurers, accountants, market analysts, tax credit syndicators, and other consultants, non-profits and businesses involved with Michigan's affordable housing industry. Our members live and work in nearly every part of the state of Michigan and represent every facet of the affordable housing industry.

On July 17, 2007, we wrote to MSHDA Executive Director Michael DeVos expressing our concern that it was "unlikely that the initial draft of the QAP would

be a unifying document.” Sadly, we were correct. The draft QAP is not a consensus building document. The draft QAP needlessly pits community against community, homeless advocates against affordable housing advocates, and for-profit developers against non-profit developers. The draft QAP undermines the very relationships that former MSHDA Executive Director Terry DuVernay and others believed to be important and that they worked to develop and maintain during the past 25 years. And for the first time, the draft QAP uses “wedge issues” like prevailing wage and local workforce requirements as a substitute for informed debate on important public policy issues. It is deeply disappointing that a public agency like MSHDA believes such tactics are necessary.

Make no mistake about it. The draft QAP is not, as the MSHDA hearing notice suggests, a “re-write”. The draft QAP is a radical departure from the current QAP approved by MSHDA and Governor Granholm just three years ago. In fact, the draft QAP is a radical departure from any QAP adopted by MSHDA during the past 20 years. According to Boston Capital – which has invested in over 7,400 affordable housing units in Michigan – the policies set forth in the draft QAP are “so far from the intent of the Section 42 to provide workforce housing that we are simply unable to invest in the LIHTC in Michigan.”¹

With few exceptions, those who attended the MSHDA listening sessions asked for consistency in order to nurture the development of affordable housing while

¹ Letter dated August 30, 2007, from Bob Moss, Senior Vice President, Boston Capital to Michael DeVos, Executive Director, Michigan State Housing Development Authority.

bringing good economic news to Michigan communities. MSHDA chose not listen to those who attended its informational hearings. MSHDA chose instead to listen to its own voice and responded with a draft QAP that contemplates too much change with too little time or information to adapt current development proposals or to develop new proposals in time for the proposed December 27th funding round. Given Michigan's struggling economy and the difficulty of attracting any investment to our state, the draft QAP sends the wrong message at the wrong time.

In our opinion, the draft QAP should not be approved by MSHDA or Governor Granholm without significant changes. And most importantly, ongoing discussions regarding the draft QAP should not be used to delay an October tax credit funding round or the economic benefits from an October funding round - which by some accounts could generate as much as \$400,000,000 for a significant part of the Michigan economy. In our opinion, MSHDA must immediately schedule an October 15th tax credit round under the current QAP that is already approved by MSHDA and Governor Granholm.

We recognize that as the state allocating agency MSHDA plays a central role in the preparation of a plan to replace the 2005-2006 QAP. But today – nearly halfway into the public comment period required by federal law – we are unable to assess the full impact of the proposed plan since critical information from MSHDA regarding the draft QAP has trickled out in piecemeal fashion or is

simply unavailable. For example, on July 16, 2007, MSHDA staff released the first draft QAP after a MSHDA Board meeting. On August 24, 2007, MSHDA staff released a second draft of the QAP on the MSHDA website. The second draft differed significantly from the first draft but MSHDA provided no explanation about what changes were made or why they were made. On September 5, 2007, supplemental information containing a new rural definition and a list of cities eligible for the PDC holdback appeared on the MSHDA website. But still missing, however, are the scoring sheets that will further clarify how MSDHA intends to implement the new priorities of the draft QAP.

The scoring criteria are critical for program participants to evaluate and understand the full impact of the plan before us. To the best of our knowledge, MSHDA has never released a draft QAP without providing the scoring information. And we don't understand why this information is not readily available today as part of an informed public debate on the draft QAP.

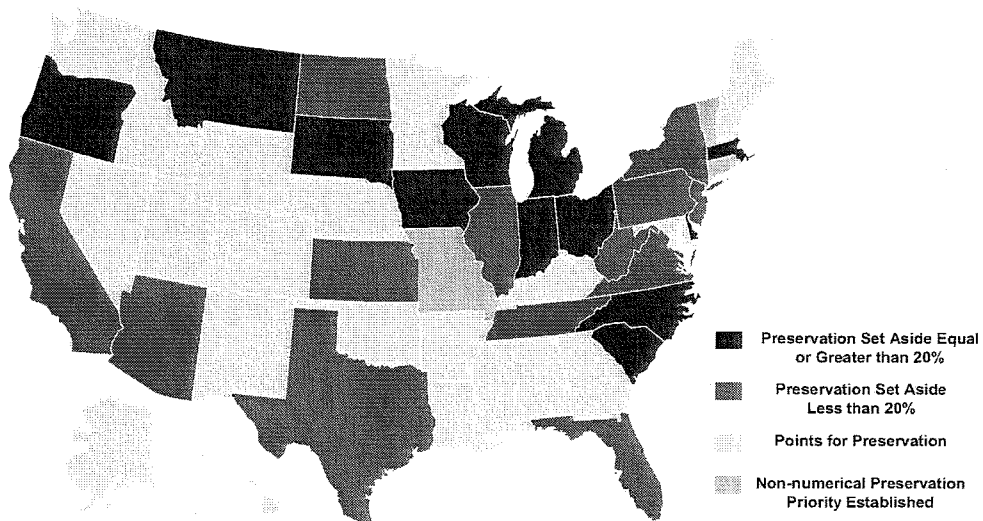
What we do know about the draft QAP, however, raises significant concerns and demonstrates the need for a thorough review before MSHDA and Governor Granholm approve the draft QAP. In our opinion, if the draft QAP were adopted in its present form, it will remove Michigan's tax credit program from the mainstream of state tax credit programs and place it firmly into untested backwaters frustrating program applicants while giving national investors another reason not to invest in Michigan.

- **The draft QAP ignores national trends and market realities, and eliminates incentives for the preservation of affordable housing.**

According to a recent survey by the National Housing Trust, 46 states – including Michigan - provide preservation incentives in their QAPs. And all of the states in the Great Lakes region – including Michigan - dedicate part of their annual credit allocation to the preservation of affordable housing.

MSHDA now stands alone in its decision to eliminate preservation incentives from a QAP. And while MSHDA has not told us if there will be point incentives for preservation projects now or in the future, it is unlikely that such incentives will be meaningful given that other priorities in the draft QAP with dedicated allocations of credit severely restrict the amount of credit available to projects in general categories like preservation. As a result, thousands of assisted units are in jeopardy of being lost to the conventional market and valuable Section 8 subsidies from the federal government are in jeopardy of being reprogrammed to other states. And investors have one more reason not to invest in Michigan.

States are using 9% competitive tax credits for preservation

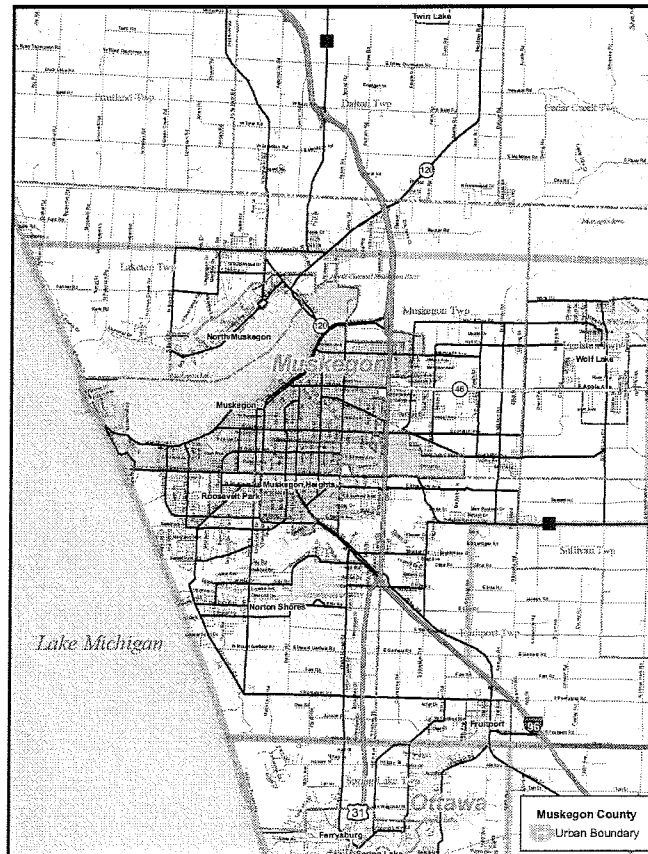


As of April 2007 · www.nhtinc.org

National Housing Trust *Safeguarding Affordable Housing*

- The draft QAP conflicts with Governor Granholm's stated objective to use public funds to spur the Michigan economy and provides little or no funding to important urban initiatives like Cities of Promise.

Earlier, we discussed our concerns that the draft QAP will push tax credit investors and scarce federal resources to other states while compounding the problems faced by the Michigan economy. But as MSHDA releases more and more details about the draft QAP, it is becoming increasingly clear that the proposed plan is inconsistent and flawed. For example, in an effort to fund the Governor's Cities of Promise initiative, MSHDA created a new rural definition. Under the new definition, the City of Muskegon Heights is now a rural community even though it is landlocked between two urban communities - Muskegon and Norton Shores as shown in this map below. Unfortunately, the MSHDA Act disqualifies Muskegon Heights from consideration under the rural set aside of the tax credit program. And as a result, Muskegon Heights only qualifies for funding under the Special Needs set aside of the draft QAP. The same is true for another City of Promise – Benton Harbor.



- **The draft QAP ignores the rule of law.**

The draft QAP fails to demonstrate the need for many of its new priorities as required by federal law. The draft QAP creates new allocation categories that minimize, if not render meaningless, the legislative mandates for the allocation of credit as enacted by the Michigan legislature. The draft QAP purports to exempt MSHDA, a public and corporate body of the State of Michigan, from its responsibilities under the Freedom of Information Act. And as we have already mentioned, MSHDA's proposed rural definition conflicts with the definition for such projects contained in its own Act.

- **The draft QAP increases production costs of affordable housing in Michigan.**

In a June 2007 interview with *Affordable Housing Finance*², MSHDA Executive Director Michael DeVos identified rising housing costs as one of the primary challenges facing low-income Michigan households. We agree.

Yet, despite this concern, the draft QAP creates additional costs and increases the rent burden on low-income consumers through unfunded public mandates including prevailing wage, local workforce requirements, guaranteed minimum health care benefits, and additional tax credit application and compliance fees for MSHDA.

The draft QAP begs the questions whether or not the benefits associated with such mandates are justified by their cost, or whether or not such mandates "provide quality employment and reduce poverty rates in Michigan towns and cities" as suggested by the draft QAP. We leave the resolution of such questions for others to debate and to determine if MSHDA has any real data that would justify the inclusion of some or all these mandates in a final QAP for the first time in the history of LIHTC program in Michigan.

What is clear, however, is that the additional costs associated with these mandates will increase the bottom line and that the additional costs will be passed on to low-income consumers in the form of higher rents. It is equally clear that it will be the responsibility of the low-income tenant - or a government or private agency where rental subsidy payments have been provided - to shoulder the additional burden of higher rents.

² State Housing Agency Leadership Forum, *Affordable Housing Finance*, June 2007.

- **The draft QAP invests in financially risky projects that will deter investment in Michigan projects.**

In a June 2007 interview with *Affordable Housing Finance*³, MSHDA Executive Director Michael DeVos stated that “the biggest challenge is the lack of significant subsidy to develop rental units affordable to very low income households 30-50 percent of area median income).” We agree.

Yet, despite the recognized lack of subsidy to assist very low income households, the draft QAP doubles the current tax credit allocation to rental developments for very low income tenants. The draft QAP also allocates nearly \$1.5 million to assist affordable assisted living developments models even though such developments cannot be sustained without Medicaid waivers or other public subsidies.

MHC recognizes and supports helping those most in need. We understand, however, that without additional public resources like Medicaid waivers or project-based vouchers or even the unfunded Housing and Community Development Fund, there are practical limits on how deeply LIHTC units may be targeted or the kind of services to be provided. In fact, a recent study⁴ by the National Association of Homebuilders (NAHB) suggests that current LIHTC developments are under financial distress due to a prolonged period of stagnant income limits and rents. The NAHB study also states that “property owners, syndicators, or HFAs will need to find additional subsidies for projects, or risk losing them from the affordable housing stock. Possible sources of additional subsidies are finite.” Unfortunately, we have also seen that the limited public resources for services and operations are not without risk and – if available - are often short-term commitments when compared to the financial commitment of a 30 or 35 year mortgage.

Incentives to assist very low income households and tenants with special needs are not new to the Michigan QAP. Such incentives have been incorporated into nearly every QAP for the last seven to ten years. In fact, 2005 survey⁵ of state tax credit agencies conducted by Enterprise and the Corporation for Supportive Housing identified Michigan as one of 9 states with a credit set aside for supportive housing. Yet, MSHDA has no data to confirm the impact these units

³ State Housing Agency Leadership Forum, *Affordable Housing Finance*, June 2007.

⁴ HUD's New Income Estimates Endanger Viability of Affordable Rentals, National Association of Home Builders, 2007.

⁵ Using the Housing Credit for Supportive Housing, An Assessment of 2005 State Policies conducted by Enterprise and the Corporation for Supportive Housing.

have had or to confirm that the required services are reaching the tenants.

Prior to any increase in the special needs holdback or new incentives for affordable assisted living developments, we believe that tangible, long term financial commitments to fund services must be identified by MSHDA and that MSHDA must undertake an independent third party review to evaluate these units and determine what lessons can be learned from the supportive housing units that have already been placed in service.

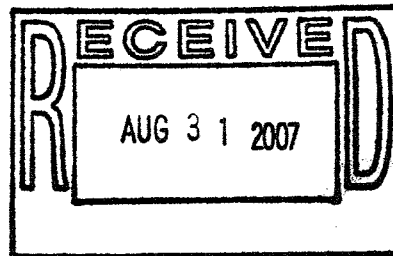
We would like to conclude our remarks by reiterating our earlier comments. Tax credit investors have a choice. Like Boston Capital, they can choose to invest in Michigan or not. MSHDA's decision to eliminate preservation incentives, to promote financially risky projects and to invest in unproven strategies to deliver affordable housing will make it more difficult to attract investment capital to Michigan tax credit projects and give investors one more reason not to invest in Michigan. Given Michigan's struggling economy and the difficulty of attracting any investment to our state, the draft QAP sends the wrong message at the wrong time.

In our opinion, the draft QAP should not be approved by the MSHDA or Governor Granholm without significant changes. And most importantly ongoing discussions regarding the draft QAP should not be used to delay an October funding round and the economic benefits of the LIHTC program for a significant part of the Michigan economy. In our opinion, MSHDA must immediately schedule an October 15th tax credit round under the current QAP. Thank you.

Boston Capital

August 30, 2007

Mr. Michael DeVos
Executive Director
Michigan State Housing Development Authority
735 E. Michigan Avenue
P.O. Box 30044
Lansing, MI 48909



RE: Draft 2008 QAP

Dear Michael:

We have reviewed the proposed draft QAP for 2008 and have serious concerns. The policies set forth in this QAP for housing production represent an unfunded mandate and are so far from the intent of Section 42 to provide workforce housing that we simply will not be able to invest in the LIHTC in Michigan.

This is very disappointing as we have for many years provided tax credit financing in Michigan, my home state. We have invested in over 7,400 affordable housing units in 64 different communities in Michigan, making Boston Capital one of the largest investors in the state.

This QAP does not allow feasible underwriting for the long term success of tax credit properties, and we are not going to be able to find investors for the property types this QAP outlines, even though I know you have encouraged Boston Capital to do more in Michigan, specifically Southeast Michigan.

The public/private structure which Section 42 creates requires that all parties participate in the process; in fact, that is what makes the LIHTC so successful. It is our hope that you will rescind this proposal and bring all parties back to the table for meaningful input.

Respectfully Submitted,

Robert C. Moss
Senior Vice President
Boston Capital

cc: Jack Manning, CEO & President, Boston Capital
Scott Larry, President, Michigan Housing Council